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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
 GARY PIERCE
 PAUL NEWMAN
 SANDRA D. KENNEDY
 BOB STUMP

IN THE MATTER OF THE
 APPLICATION OF SULPHUR
 SPRINGS VALLEY ELECTRIC
 COOPERATIVE, INC. FOR A
 HEARING TO DETERMINE THE
 FAIR VALUE OF ITS PROPERTY
 FOR RATEMAKING PURPOSES, TO
 FIX A JUST AND REASONABLE
 RETURN THEREON, TO APPROVE
 RATES DESIGNED TO DEVELOP
 SUCH RETURN AND FOR RELATED
 APPROVALS.

DOCKET NO. E-01575A-08-0328

**NOTICE OF FILING REJOINDER
 TESTIMONIES OF SULPHUR
 SPRINGS VALLEY ELECTRIC
 COOPERATIVE, INC.**

Pursuant to the August 18, 2008, Rate Case Procedural Order in the above-captioned matter, Sulphur Springs Valley Electric Cooperative, Inc. ("Cooperative"), through counsel undersigned, hereby files the Rejoinder Testimonies of the following witnesses on behalf of the Cooperative:

- David W. Hedrick
- Jack Blair
- David M. Brian

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Arizona Corporation Commission
DOCKETED

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1 RESPECTFULLY SUBMITTED this 17th day of April, 2009.

2 SNELL & WILMER L.L.P.

3
4 By 

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9 Attorneys for Sulphur Springs Valley
10 Electric Cooperative, Inc.

11 ORIGINAL and 13 copies filed this
12 17th day of April, 2009, with:

13 Docket Control
14 ARIZONA CORPORATION COMMISSION
15 1200 West Washington
16 Phoenix, Arizona 85007

17 COPIES of the foregoing hand-delivered
18 this 17th day of April, 2009, to:

19 Ernest Johnson, Director
20 Utilities Division
21 ARIZONA CORPORATION COMMISSION
22 1200 West Washington Street
23 Phoenix, Arizona 85007

24 Wesley C. Van Cleve, Attorney
25 Legal Division
26 ARIZONA CORPORATION COMMISSION
27 1200 West Washington Street
28 Phoenix, Arizona 85007

COPY of the foregoing sent via E-Mail and U.S. Mail
this 17th day of April, 2009, to:

Jane Rodda, Administrative Law Judge
Hearing Division
ARIZONA CORPORATION COMMISSION
400 West Congress
Tucson, AZ 85701-1347

By 

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2

3 COMMISSIONERS

4 KRISTIN K. MAYES—Chairman
5 GARY PIERCE
6 PAUL NEWMAN
7 SANDRA D. KENNEDY
8 BOB STUMP

9 IN THE MATTER OF THE APPLICATION
10 OF SULPHUR SPRINGS VALLEY
11 ELECTRIC COOPERATIVE, INC. FOR A
12 HEARING TO DETERMINE THE FAIR
13 VALUE OF ITS PROPERTY FOR
14 RATEMAKING PURPOSES, TO FIX A
15 JUST AND REASONABLE RETURN
16 THEREON, TO APPROVE RATES
17 DESIGNED TO DEVELOP SUCH RETURN
18 AND FOR RELATED APPROVALS.

DOCKET NO. E-01575A-08-0328

19 **PRE-FILED REJOINDER TESTIMONY OF DAVID W. HEDRICK**
20 **ON BEHALF OF**
21 **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**

22 **April 17, 2009**

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1 **I. INTRODUCTION**

2
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is David W. Hedrick and my business address is 5555 North Grand
5 Boulevard, Oklahoma City, Oklahoma 73112-5507.

6
7 **Q. MR. HEDRICK, BY WHOM ARE YOU EMPLOYED AND IN WHAT**
8 **CAPACITY?**

9 A. I am employed by C. H. Guernsey & Company, Engineers, Architects and
10 Consultants. I am Vice-President and Manager of the Analytical Services group.

11
12 **Q. DID YOU ALSO PRE-FILE DIRECT AND REBUTTAL TESTIMONY IN**
13 **THIS MATTER ON BEHALF OF SULPHUR SPRINGS VALLEY**
14 **ELECTRIC COOPERATIVE, INC. ("SSVEC" OR THE**
15 **"COOPERATIVE")?**

16 A. Yes.

17
18 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. The purpose of my rejoinder testimony is to provide the Cooperative's position
21 with regard to certain recommendations made by Arizona Corporation Commission
22 ("Commission") Staff witnesses Crystal S. Brown, Julie Mcneely-Kirwan and
23 William Musgrove in their respective Surrebuttal Testimonies.

24 ...

25 ...

26 ...

1 **II. REJOINDER SUMMARY**

2
3 **Q. PLEASE STATE SSVEC'S POSITION WITH REGARD TO THE**
4 **RECOMMENDATIONS MADE BY STAFF.**

5 A. After review of Staff's surrebuttal testimony, SSVEC'S positions are:

- 6 • SSVEC continues to support the inclusion of the payroll costs associated
7 with the 10 employees added after the end of the test year.
- 8 • SSVEC continues to support the inclusion of safety pay and Christmas pay.
- 9 • SSVEC continues to support the inclusion of charitable contributions and
10 sponsorships.
- 11 • SSVEC continues to support the inclusion of actual rate case expense.
- 12 • SSVEC continues to contend that Staff's proposed revenue requirement
13 does not produce sufficient margins to increase equity. SSVEC continues to
14 support the Cooperative's revised revenue requirement and resulting
15 margins recommended in the Cooperative's rebuttal testimony.
- 16 • SSVEC does not believe that Staff has provided sufficient justification to
17 support the recommendation to require SSVEC to seek Commission
18 approval each time it needs to increase the WPCA factor.
- 19 • SSVEC does not agree with Staff's recommendations regarding the
20 proposed customer charges.
- 21 • SSVEC agrees with Staff's recommended Residential TOU rate.
- 22 • SSVEC agrees with certain of Staff's recommended service charges and has
23 proposed alternative charges for certain service charges.

24 ...

25 ...

26 ...

1 **III. SSVEC'S REJOINDER ANALYSIS**

2
3 **Q. What is SSVEC's justification for continuing to support the inclusion of the**
4 **\$523, 570 in payroll expense for employees hired after the test year?**

5 A. SSVEC believes the inclusion of the costs associated with these employees is
6 justified because these employees are necessary for the provision of continued
7 reliable electric service. As noted in the Surrebuttal Testimony of Crystal Brown,
8 SSVEC has not had any problems with service or quality levels. Maintaining a
9 high level of reliable service is very important to SSVEC. It would not be prudent
10 to allow service and quality levels to fall by failing to have an adequate number of
11 employees. SSVEC's proactive approach to staffing ensures that service and
12 quality do not suffer. SSVEC understands that maintaining the proper number of
13 employees is a continuous balancing of cost and the need to maintain high quality
14 service. However, waiting to hire additional staff until quality and service levels
15 decline is not an appropriate way to manage the cooperative.

16
17 SSVEC's purpose for inclusion of the additional employees was to be slightly
18 forward looking in its projection of the payroll costs required to provide service.
19 Given that these employees were hired shortly after the end of the test year, it is not
20 unreasonable to include these costs. It is clear that SSVEC's margins, equity and
21 other financial indicators are not strong. Understating the known payroll costs that
22 SSVEC is already incurring will hinder the cooperative's ability to improve its
23 margins and increase equity.

24
25 SSVEC's development of expense adjustments in this filing demonstrates its
26 understanding of the test year concept and matching of expenses with billing units.

1 Staff's argument that these payroll costs are not allowable because they are outside
2 the test year would be more compelling if the rate change process provided for a
3 timely implementation of new rates shortly after the end of the test year. Given the
4 current schedule, it is not likely that SSVEC will have new rates in effect before
5 August of this year. That will be 20 months after the end of the test year. The
6 recognition of some known, measurable and on-going expenses such as these
7 payroll costs is reasonable given the regulatory lag inherent in the process.
8 Accordingly, SSVEC continues to recommend that the revenue requirement be
9 increased to include these payroll expenses.

10
11 **Q. What is SSVEC's justification for continuing to support the inclusion of safety**
12 **pay and Christmas pay in the amount of \$45,058?**

13 A. Both the Christmas pay and safety pay have been consistently paid to SSVEC
14 employees every year. These items are just one piece of the entire compensation
15 package. There is no justification for singling out these specific items and labeling
16 them as unnecessary. Christmas pay is not incentive based. The small amount
17 provided for safety pay provides employees a continuing signal that safety is a
18 priority. Staff suggests that these costs could simply be paid out of cash margins.
19 This would have the affect of reducing the cash margins available to build cash
20 reserves and build equity. For a cooperative, there is no distinction between
21 margins above the line or below the line. A cooperative has no stockholders from
22 which to recover costs that are not recovered through rates. The members of the
23 Cooperative are the ones negatively affected by not allowing the Cooperative to
24 recover these reasonable compensation costs. Accordingly, SSVEC continues to
25 recommend that the revenue requirement be increased to include these payroll
26 expenses.

1 **Q. What is the basis for Staff's continued exclusion of charitable contributions?**

2 A. Staff contends that contributions and donations are voluntary costs and are,
3 therefore, not needed in the provision of service. Further, staff contends that
4 Decision No. 58358 does not provide automatic recovery of such costs.

5
6 **Q. Are Staff's arguments to exclude charitable contributions valid given the**
7 **provisions in Decision No. 58358?**

8 A. No. Had the Commission intended to exclude charitable contributions in all
9 circumstances, the Commission had only to say as much in the order. The
10 Commission expressly did not. Instead, the Commission clearly included a
11 provision which recognized that cooperatives are different. The provision allows
12 for the recovery of charitable contributions if certain conditions were met. Those
13 conditions included a change in the Cooperative's by-laws. That change was
14 accomplished long ago as discussed in the Rebuttal Testimony of Jack Blair, and is
15 further discussed in Mr. Blair's Rejoinder Testimony. This provision makes sense
16 for an electric cooperative where the member-owners and the rate payers are the
17 same people. Excluding charitable contributions because they are deemed to be
18 voluntary and not needed is not justified given that the member-owners have given
19 their approval to include these costs in the rates they pay.

20
21 **Q. What is SSVEC's recommendation regarding charitable contributions?**

22 A. The proposed revenue requirement should be increased by \$298,622 to include the
23 costs associated with charitable contributions.

24 ...

25 ...

26 ...

1 **Q. What is Staff's argument for not including the actual rate case expenses**
2 **incurred?**

3 A. Staff argues that because SSVEC did not have a budget and did not (in Staff's
4 opinion) provide careful analysis of costs, SSVEC is entitled only to the recovery
5 of the initial estimate of rate case expense.
6

7 **Q. Is the staff's argument reasonable?**

8 A. No. The lack of a budget and analysis of the costs is not the reason for the increase
9 in the rate case expenses. SSVEC's rate case expense adjustment included in the
10 filing represented the estimate of rate case expense up to the time of the filing.
11 SSVEC filed the application in this rate case in June 2008. Since that time, the
12 Cooperative has responded to 17 sets of formal data requests that comprised 274
13 questions (not counting subparts), and provided in excess of 15,000 pages of
14 information in both hard copy and electronic form. SSVEC staff, consultants and
15 attorneys have spent many hours preparing responses to both formal and informal
16 requests for information from Staff. In addition, SSVEC' staff, consultants and
17 attorneys have spent many hours preparing Rebuttal (and now Rejoinder)
18 testimony and have met with Staff regarding DSM and other issues. Finally,
19 because Staff determined in December of 2008 to hire a rate case consultant to
20 provide testimony relating to SSVEC's power procurement activities, SSVEC had
21 no choice but to engage an additional consultant to assist in data request responses
22 and to provide Rebuttal analysis and testimony.
23

24 In response to Staff's data request CSB 16.1, SSVEC provided, and Staff reviewed,
25 actual invoices of legal and consulting expenses from February 2008 through
26 February 2009 totaling \$331,527 which the Cooperative has already paid. In

1 March 2009, SSVEC was invoiced an additional \$23,893 and \$8,718 in legal and
2 consulting expenses, respectively. And, through April 15, 2009, SSVEC has
3 incurred additional legal expenses of \$20,681. Therefore, as of April 15, 2009,
4 SSVEC has incurred known and verifiable rate case expenses totaling at least
5 \$384,819. These amounts do not include the additional legal and consulting rate
6 case expenses that SSVEC will be required to incur related to completion of its
7 Rejoinder Testimony and witness summaries, hearing preparation, the rate case
8 hearing itself, and closing briefs. Therefore, SSVEC will incur rate case expenses
9 well in excess of the \$397,608 that has been requested.

10
11 As an electric cooperative, SSVEC does not have a rate department of employees
12 to deal with all of the filings and issues in a rate case. Cooperatives typically do
13 not have frequent rate cases, therefore maintaining the in-house resources to do rate
14 cases is not prudent. Instead, SSVEC and other cooperatives rely on outside
15 consultants and attorneys to provide the necessary expertise. SSVEC has not had a
16 rate case in 17 years. There are many issues that have been raised in this case
17 which have required more effort by all parties involved. SSVEC has no control
18 over the level of involvement and discovery pursued by Staff in this proceeding.
19 SSVEC is required to respond to Staff requests for information. Staff's assertion
20 that SSVEC has been guilty of poor planning and lacking in its control of rate case
21 costs would appear to be misplaced.

22
23 Additional evidence is provided showing that the Commission has allowed
24 comparable levels of rate case expense for utilities of even smaller size than
25 SSVEC. Attached as Rejoinder Exhibit DH-1.0 is a list of the rate case expense
26 approved by the Commission in 10 other proceedings over the last five (5) years.

1 Given the level of effort required to comply with Commission filing requirements
2 and Staff discovery, it is not appropriate to deny the recovery of the actual and
3 reasonable expected rate case expenses incurred. A denial of this request will
4 result in a further reduction in SSVEC's available margin as the expenses must be
5 paid. Accordingly, SSVEC continues to request that the revenue requirement be
6 increased by an additional \$59,522 to \$79,522, amortized over five (5) years, so
7 that the Cooperative has the opportunity to recover most (not all) of the rate case
8 expenses that it will incur to complete this rate case
9

10 **Q. Does SSVEC agree that Staff's revised revenue requirement and resulting**
11 **margin will allow the Cooperative's equity level to grow to 30 percent by**
12 **2016?**

13 A. No. Staff's revised proposed revenue requirement does not provide sufficient
14 margins to increase SSVEC's equity to 30 percent by 2016. Staff witness Brown's
15 revised recommendations result in a proposed net margin of \$8,926,940, which is
16 \$322,715 greater than the Staff's previous recommendation. Staff contends that
17 this increase in margin is sufficient to provide for an increase in equity. Ms.
18 Brown provides a Surrebuttal Schedule CSB-23 which is an analysis showing the
19 projected equity based on her recommendation. Staff's analysis is not correct.
20 Staff contends that the cooperative can use \$3.0 million from increased margins to
21 reduce the required long-term debt. The reduction in required debt produces the
22 increase in the equity ratio.
23

24 The problem with the analysis is that the estimated long-term debt shown on
25 Rebuttal Exhibit DH-9, which Staff uses as a starting point, already reflects an
26 annual reduction in long-term debt equal to the full amount of the increase in

1 margin. The projected increase in capitalization for 2009-2016 was held constant
2 at \$27,764,799. The additional margins produced by the rate change are added to
3 the equity and result in a corresponding reduction to the long-term debt. The long-
4 term debt projections shown on Rebuttal Exhibit DH-9 represent the *minimum*
5 projected long-term debt balance that could be achieved based on Staff's initial
6 revenue requirement recommendation. The long-term debt projections shown on
7 Rebuttal Exhibit DH-9 are a best case scenario. Staff's reduction of this long-term
8 debt projection by an additional \$3.0 million has no basis. The full amount of the
9 increase in margins has already been recognized in the reduction of the long-term
10 debt increase. What Staff's analysis shows is that an *additional* \$3.0 million in
11 margins would be needed in order to build equity to 30 percent by 2016.

12
13 Staff has also reduced the long-term debt projection by 10 percent because "the
14 nation is in recession and may take several years to recover" and "New home
15 construction is down and is not expected at the same rate." Staff has provided no
16 evidence to support the correlation between a slowdown in the economy and a
17 reduction in plant additions and required loan funds by SSVEC. The assumption
18 that staff makes is that SSVEC's plant growth and required loan funds are
19 dependent upon the condition of the economy. This is not correct. SSVEC is an
20 aging system which has and will continue to require substantial infrastructure
21 replacements and upgrades to provide the level of service expected and required.
22 The following are examples of the types of on going construction:

- 23 • SSVEC has over 75,000 wood poles, 12,000 of which are over 30 years
24 old. On a 45 year cycle, the cooperative needs to replace 1,600 poles per
25 year. Staff witness Prem Bahl confirms the need for the pole replacement
26 program in his testimony.

- 1 • SSVEC has 260-270 miles of 69 kV line that is over 40 years old which
- 2 needs to be upgraded. Staff witness Prem Bahl confirms the need for
- 3 improvements to the 69 kV system in his testimony.
- 4 • SSVEC has a significant amount of distribution line that needs to be
- 5 upgraded due to degraded wire.
- 6 • In order to maintain the Commission's mandated "continuity of service",
- 7 SSVEC will be required to upgrade its sub-transmission system and also
- 8 pay for Southwest Transmission Cooperative's upgrades.
- 9 • SSVEC's substations need to be upgraded for better communications,
- 10 better control and replacement of outdated/worn out equipment.
- 11 • The projected cost for the Sonoita project has increased to \$13 million.

12

13 SSVEC has a significant amount of system improvement work to be accomplished

14 that has nothing to do with the condition of the economy. SSVEC does not

15 anticipate a reduction in the level of plant additions or corresponding loan funds

16 required to finance those additions as a result of any slowdown in the economy.

17 There is certainly no evidence to support Staff's assumption that the level of long-

18 term debt required by SSVEC will drop by 10% as a result of the economy.

19

20 It should also be noted that although the economy has slowed significantly in

21 certain areas of the country and in certain areas in Arizona, the SSVEC service area

22 has not been impacted as much as other areas. This is due to the fact the primary

23 driver of the economy in SSVEC's territory is Fort Huachuca which has actually

24 grown by a small amount especially in the area of civil servants and contractors. In

25 addition, the base has demolished 600 older homes and will be replacing them with

26

1 approximately half that number of new homes. As the economy rebounds there will
2 not be as many empty homes to fill and local builders will be building sooner.

3
4 Rejoinder Exhibit DH-2 is a revision of the previously submitted Rebuttal Exhibit
5 DH-9. Rejoinder Exhibit DH-2 shows the projected increase in equity using the
6 Staff's revised margin amount. The exhibit shows that the additional increase in
7 margins of \$322,715 provides only a slight improvement in the cooperative's
8 equity position. Again, it should be noted that the projected long-term debt has
9 been reduced by the total margin amount.

10
11 Rejoinder Exhibit DH-2 also shows the increase in equity under SSVEC's proposed
12 revenue requirement as presented in my rebuttal testimony. The increase in
13 margins allows the cooperative to increase equity to 30 percent by 2016 based on
14 the projections of long-term debt in the analysis.

15
16 Rejoinder Exhibit DH-3 provides a summary of the projected long-term debt using
17 information from the most recently completed financial forecast prepared by
18 SSVEC. As shown on this schedule, SSVEC anticipates that the actual level of
19 long-term debt required will be greater than the minimum amount reflected on
20 Rejoinder Exhibit DH-2. This is a result of the projected loan funds required to
21 finance plant additions.

22
23 Rejoinder Exhibit DH-3 also includes a sensitivity analysis assuming that the
24 projected new loan funds required are reduced by 20 percent. SSVEC has no
25 expectation or reason to believe that the level of loan funds required will be
26 reduced. This sensitivity analysis is included to show that even if projected

1 required loan funds are reduced by 20 percent, the long-term debt level is still
2 higher than the projection in Rejoinder Exhibit DH-2. The higher levels of long-
3 term debt will make it more difficult for SSVEC to achieve the desired equity
4 goals.

5
6 SSVEC continues to support the Cooperative's proposed revenue requirement of
7 \$102,688,240 as stated in my rebuttal testimony which produces a net margin of
8 \$10,267,812. This is the minimum level of margin needed to provide SSVEC the
9 opportunity to improve its equity to a 30 percent level.

10
11 **Q. Does SSVEC agree with the Staff's recommendations regarding the fuel**
12 **adjustor mechanism?**

13 **A.** Not entirely. SSVEC believes the thresholds recommended by Staff requiring
14 SSVEC to change the WPCA factor are not ideal but SSVEC believes are
15 workable. However, the Staff's continued recommendation to require SSVEC file
16 for approval of every upward change in the WPCA factor is not acceptable.

17
18 Staff's testimony regarding the volatility of purchased power costs and the fact that
19 these costs are in large part outside of SSVEC's control are the fundamental
20 reasons for which the fuel adjustor mechanism was established in the first place.
21 The cost of wholesale power represents roughly 65 percent of the total cost of
22 providing service for SSVEC. The Cooperative must be able to recover changes in
23 power cost in a timely manner in order to avoid potential financial problems. The
24 purpose of the WPCA is to allow a timely recovery of these costs without having to
25 come back to the commission every time for approval.

26 ...

1 SSVEC understands the Staff's concern regarding increases in the WPCA which
2 would cause a very high customer increase or "rate shock". SSVEC has proposed
3 a reasonable compromise to address this concern. Staff argues that because the
4 future costs of power are not known, then the impact on customer's bills is unclear.
5 This is not true. Under SSVEC's compromise proposal, the maximum increase
6 that could be implemented without Commission approval is 10 percent. That is
7 definite and clear. It does not matter whether the future power costs are known, the
8 maximum impact on customer's bill without Commission approval is known. Any
9 additional amount would be subject to the Commission's authority.

10
11 Staff has provided no justification why it is necessary for SSVEC to file for
12 Commission approval of small increases in the WPCA factor. Staff has expressed
13 concern about preventing "rate shock". SSVEC's proposed compromise addresses
14 this issue. Requiring the cooperative to seek approval of every upward change in
15 the WPCA, regardless of the magnitude defeats the purpose of the adjustor
16 mechanism, will create significant delay in the recovery of costs and will add
17 additional expense for filings with the commission. Requiring the cooperative to
18 seek approval for increases in the WPCA factor which result in an increase of more
19 than 10 percent to the customer is reasonable and ensures that there is no
20 significant impact on customers without Commission approval.

21
22 SSVEC also believes that there must be some provision that requires the
23 Commission to act on such filings within a specified time frame. Given the
24 magnitude of the wholesale power cost and the potential impact of a less than
25 timely recovery, a 60-day turn-around is not an unreasonable expectation. Staff
26 suggests that the Cooperative could file six (6) months in advance to avoid a lag in

1 recovery. Staff also testifies that purchased power costs are volatile and hard to
2 predict. SSVEC is dependent upon AEPCO for the majority of its purchases and
3 market prices for the remainder. SSVEC is not always able to predict changes in
4 power cost into the future. That is why the WPCA factor is so important in the
5 recovery of these costs. Unlike an investor-owned utility that may be able to
6 predict fuel costs well into the future, SSVEC does not have that same ability. It is
7 essential that SSVEC have the ability to recover sudden increases in fuel costs
8 without a significant delay at the Commission.

9 SSVEC has provided a reasonable compromise to address Staff's concern
10 regarding the WPCA factor. SSVEC recommends that its proposed compromise be
11 adopted.
12

13 **Q. Does SSVEC agree with Staff's recommendation regarding the level of**
14 **customer charges?**

15 **A.** No. Staff's recommended customer charges do not increase the customer charge
16 component sufficiently. Mr. Musgrove sites three principles for Staff's
17 recommended customer charges.
18

19 The first principle of gradualism would be valid if the cooperative routinely revised
20 its rates. That has not been the case. SSVEC's last rate change was 17 years ago.
21 This rate application is the first opportunity in 17 years to make these changes.
22 Also, SSVEC provided evidence showing that the actual customer related cost is
23 significantly higher than the existing customer charge. For Residential, a customer
24 charge of over \$23.00 per month is justified based on the cost of service. Staff's
25 proposed increase in the Residential customer charge is \$0.75 per month. Based on
26

1 the principle of gradualism, over 20 rate changes would be required to approach the
2 customer charge that is justified today.

3
4 The new PURPA standard (17) included in the Energy Independence and Securities
5 Act states:

6
7 (17) RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY
8 EFFICIENCY INVESTMENTS –

9 (A) IN GENERAL – The rates allowed to be charged by any electric utility
10 shall

11 (i) align utility incentives with the delivery of cost-effective energy
12 efficiency; and

13 (ii) promote energy efficiency investments.

14 (B) POLICY OPTIONS. – In complying with subparagraph (A) each State
15 authority and each non regulated utility shall consider –

16 (i) removing the throughput incentive and other regulatory and
17 management disincentives to energy efficiency; (emphasis added.)

18
19 The increases in customer charges recommended by SSVEC are appropriate not
20 only because of the cost justification but also because it is a necessary de-coupling
21 of the cost recovery away from a dependence on energy sales. As the fixed
22 customer charges are increased and less of the utility's costs and margins are
23 recovered through the energy charge, there will be less of a negative impact on the
24 cooperative as a result of reduced energy sales resulting from energy efficiency and
25 conservation programs. A more significant change in the customer charges than
26

1 recommended by Staff is needed to accomplish the objectives set forth in the
2 PURPA standards.

3
4 The second principle Mr. Musgrove applies is based on a comparison of the Staff's
5 proposed rate increase with SSVEC's originally proposed increase. Mr. Musgrove
6 references the originally proposed Staff increase of \$6.4 million. Staff's revised
7 proposed increase as reflected in the surrebuttal of Crystal Brown is \$7,595,316.
8 Based on this principle, the customer charges should be revised upward to reflect
9 any upward change in the revenue requirement.

10
11 The third principle is essentially one of customer impact. Mr. Musgrove indicates
12 that a residential customer would face an increase of 67 percent in the customer
13 charge component of the rate under the SSVEC proposal. This is misleading. The
14 67 percent increase referred to is \$5.00 per month. Only a minimum bill customer
15 with no kWh consumption would experience a \$5.00/month increase equal to a 67
16 percent increase. Rebuttal Exhibit DH-14 shows that under the SSVEC proposal,
17 the majority of Residential customers would experience an increase in the 9%-10%
18 range. Minimum usage customers should not be confused with low-income
19 customers. There is no evidence to suggest that low usage means low-income;
20 quite the contrary. Typically, lower-income members have the least energy
21 efficient homes that use more energy. The majority of minimum bill customers are
22 services of convenience; additional services for secondary purposes, seasonal
23 homes or unoccupied residences, etc. Increasing the customer charge on these
24 minimum use customers provides a more fair recovery of costs and reduces the
25 impact on consumers that are consuming energy.

26 ...

1 SSVEC believes that its recommended increases in customer charges are
2 appropriate and in the best interest of members and for the promotion of energy
3 efficiency and conservation efforts.
4

5 **Q. Does SSVEC accept Staff's recommendation with regard to the Residential**
6 **Time of Use rate?**

7 A. Yes. SSVEC will accept Mr. Musgrove's revised rate design in his Surrebuttal
8 Testimony.
9

10 **Q. Does SSVEC agree with Staff' recommendation with regard to the Service**
11 **Fees recommended by Mr. Musgrove?**
12

13 A. SSVEC believes that it is appropriate to increase the level of service charges more
14 than recommended by Mr. Musgrove. Mr. Musgrove's arguments do not recognize
15 that the cost of providing the services in question is significantly higher than the
16 proposed charges. Rebuttal Exhibit DH-21 provided in my rebuttal testimony
17 provides the cost justification for the higher proposed charges. Mr. Musgrove's
18 approach recognizes only the increased costs of labor since SSVEC's last rate case
19 when the service charges were established. To the extent that the service charges
20 were not recovering costs when established, Mr. Musgrove's recommendations do
21 nothing to change that. Staff's recommended changes maintain the status quo. It is
22 SSVEC's understanding from discussions and rulings related to line extension and
23 other issues, that the Commission has expressed the intent that to the extent
24 practicable, the costs of providing service should be borne by those that cause the
25 costs to be incurred. The establishment of appropriate service fees is a clear way to
26 accomplish this objective. A larger increase in the service fees is necessary to

1 move the charges closer to the actual cost of providing the service. Based on the
2 evidence provided showing that the cost of providing these services is significantly
3 higher than the proposed charges, SSVEC is proposing a compromise to the Staff's
4 proposed service fee charges. SSVEC's revised proposed charges are shown on
5 Rejoinder Exhibit DH – 6.0. The proposed charges for Existing Member Connect,
6 New Connects, Non-Pay Trip Fee – Regular Hours and Service Charge Regular
7 Hours have been set at \$50.00 (instead of Staff's recommended \$40). All other
8 service fee charges that Staff recommended have been adopted.
9

10 **Q. Have you provided a revised schedules showing SSVEC's proposed rate**
11 **change by rate class and the revised proposed rates?**

12 A. Yes. Rejoinder Exhibit DH-4.0 shows SSVEC's revised proposed rate change by
13 rate class and Rejoinder Exhibit DH-5.0 shows the revised proposed proof of
14 revenue. The revised proposed rates reflect the compromise service fee
15 recommendation and Staff's Residential TOU recommendation. SSVEC's revised
16 proposed rates are based on the revenue requirement as proposed by SSVEC in its
17 rebuttal testimony.
18

19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.
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IV. EXHIBITS

Rejoinder

Exhibit DH-1.0

Commission Approved Rate Case Expenses

Utility	Docket No.	Decision No.	Date of Decision	Requested Rev.	Approx No. of Customers	Approved Rate Case Expenses	Amortization Period
UNS Electric	E-04204A-06-0783	70360	May 27, 2008	\$171,631,367	93,000	\$300,000	3
Arizona-American Water	W-01303A-07-0209	70351	May 16, 2008	\$9,711,596	23,000	\$94,264	4
UNS Gas	G-04204A-06-0463	70011	November 27, 2007	\$178,393,000	140,000	\$300,000	3
Far West Water and Sewer	WS-03478A-05-0801	69335	February 20, 2007	\$1,900,786	5,500	\$160,000	3
Black Mountain Sewer	SW-02361A-05-0657	69164	December 5, 2006	\$1,375,037	1,957	\$150,000	4
Arizona Water Company	W-01445A-04-0650	68302	November 14, 2005	\$12,140,321	20,266	\$250,000	3
Chaparral City Water	W-02113A-04-0616	68176	September 30, 2005	\$7,795,935	12,000	\$285,000	4
Pine Water Company	W-03512A-03-0279	67166	August 10, 2004	\$922,984	2,000	\$200,000	4
Arizona-American Water	WS-01303A-02-0867	67093	June 30, 2004	\$10,331,873	15,000	\$418,941	3
Arizona Water Company	W-01445A-02-0619	66849	March 19, 2004	\$18,909,627	29,000	\$250,000	3

SSVEC Rate Case

Requested Revenue Requirement	\$103,495,149
Number of Customers	50,000
Requested Rate Case Expenses	\$397,606
Amortization Period	5 Years
Staff Recommended Rate Case Expenses	\$100,000

Rejoinder

Exhibit DH-2

INCREASE IN EQUITY

***Staff Proposed from Schedule CSB-8 in Crystal Brown's testimony**

SSVEC REBUTTAL

Rejoinder Exhibit DH - 2

Rejoinder

Exhibit DH-3

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE
DOCKET NO. E-01575A-08-0328

CURRENT PROJECTIONS OF LONG-TERM DEBT

	2009	2010	2011	2012	2013	2014	2015	2016
<u>Current Financial Forecast Projections</u>								
Debt at Beginning of Year	128,356,970	158,092,577	184,298,481	215,530,488	242,159,837	269,201,457	296,584,539	324,373,029
New Loan Funds Required For Projected Plant Additions	35,026,067	31,900,000	37,452,000	33,425,560	34,428,327	35,461,177	36,525,012	34,560,762
Less: Projected Principal Pmt	5,290,460	5,694,096	6,219,993	6,796,211	7,386,707	8,078,095	8,736,522	9,518,202
Debt at End of Year	158,092,577	184,298,481	215,530,488	242,159,837	269,201,457	296,584,539	324,373,029	349,415,589
<u>Current Financial Forecast with 20% Reduction in New Loan Funds Required</u>								
Debt at Beginning of Year	128,356,970	151,087,364	170,993,995	194,921,508	215,166,896	235,742,100	256,590,473	277,763,173
New Loan Funds Required For Projected Plant Additions	28,020,854	25,520,000	29,961,600	26,740,448	27,542,662	28,368,942	29,220,010	27,648,610
Less: Projected Principal Pmt	5,290,460	5,613,369	6,034,086	6,495,061	6,967,458	7,520,568	8,047,310	8,672,654
Debt at End of Year	151,087,364	170,993,995	194,921,508	215,166,896	235,742,100	256,590,473	277,763,173	296,739,129

*New loan funds required includes is net of cash general funds invested in plant.

Rejoinder

Exhibit DH-4.0

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

SUMMARY OF PROPOSED CHANGES BY RATE CLASS - REVISED SSVEC PROPOSED RATES

	Adjusted Consumers	Adjusted kWh Sold	Adjusted Revenue	Proposed Revenue	Change	
					\$	%
Residential	40,440	353,167,734	42,655,886	47,457,291	4,801,405	11.26%
Residential - TOU	17	210,002	23,487	29,383	5,896	25.10%
Residential	40,457	353,377,736	42,679,373	47,486,674	4,807,302	11.26%
GS - Non-Demand	6,280	36,407,984	4,586,541	5,618,262	1,031,721	22.49%
GS - Demand	2,074	70,980,271	8,597,707	10,308,910	1,711,203	19.90%
GS - TOU	41	836,583	93,290	106,411	13,121	14.07%
General Service	8,396	108,204,838	13,277,537	16,033,582	2,756,045	20.76%
Irrigation - Seasonal	253	37,779,578	4,060,272	4,440,506	380,234	9.36%
Irrigation - Load Factor	50	16,244,584	1,469,505	1,695,230	225,725	15.36%
Irrigation - Control Daily	73	10,581,835	954,985	955,579	595	0.06%
Irrigation - Control Weekly	220	32,780,060	3,106,113	3,269,889	163,777	5.27%
Irrigation - Control Daily/Large	122	35,167,187	2,980,261	3,114,298	134,037	4.50%
Irrigation - Test	1	21,603	2,169	2,530	360	16.61%
Irrigation	718	132,574,847	12,573,304	13,478,033	904,728	7.20%
Large Power	324	124,127,579	12,434,020	12,992,955	558,935	4.50%
Large Power - Seasonal	11	1,073,769	144,612	167,297	22,685	15.69%
Large Power - Industrial	8	25,031,391	2,232,907	2,354,860	121,953	5.46%
LP - TOU	38	8,528,086	661,177	666,697	5,521	0.83%
Large Power	381	158,760,825	15,472,716	16,181,810	709,094	4.58%
Contract 1	1	23,475,600	1,703,436	1,707,166	3,730	0.22%
Contract 2	1	14,414,400	1,233,950	1,244,808	10,858	0.88%
RV Parks	12	4,675,120	456,868	470,219	13,350	2.92%
Street Lights	51	2,355,546	468,345	548,067	79,722	17.02%
Security Lights	1,453	1,634,628	287,082	313,303	26,221	9.13%
Lighting	1,504	3,990,174	755,427	861,370	105,943	14.02%
Unmetered	7	386,616	68,292	71,384	3,091	4.53%
Pre-Meter Construction	12	0	1,587	1,656	69	4.35%
Total	51,488	799,860,156	88,222,491	97,536,702	9,314,211	10.56%
Other Revenue			4,299,478	4,847,518	548,040	12.75%
Total			92,521,969	102,384,220	9,862,251	10.66%
Target			92,825,281	102,688,240	9,862,959	
Difference			-303,312	-304,020	-708	

Rejoinder Exhibit DH - 4.0

Rejoinder

Exhibit DH-5.0

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF REVISED PROPOSED RATES

	Billing Units	Unbundled Rate:			Unbundled Revenue		
		Power Supply	SSVEC Wires	Total	Power Supply	SSVEC Wires	Total
1. RESIDENTIAL							
Base Charge (12 months sum)	485,280	0.00	12.50	12.50	0	6,066,000	6,066,000
First 750 kWh	259,719,236	0.073000	0.044200	0.117200	18,959,504	11,479,590	30,439,094
Over 750 kWh	93,448,498	0.073000	0.044200	0.117200	6,821,740	4,130,424	10,952,164
Subtotal	353,167,734				25,781,245	21,676,014	47,457,258
WPCA					33	0	33
Total Revenue					25,781,277	21,676,014	47,457,291
Time of Use							
Base Charge (12 months sum)	208	0.00	16.50	16.50	0	3,432	3,432
On-Peak kWh	78,470	0.141700	0.024020	0.165720	11,119	1,885	13,004
Off-Peak kWh	131,562	0.035000	0.063410	0.098410	4,605	8,342	12,947
Subtotal	210,032				15,724	13,659	29,383
WPCA					0	0	0
Total Revenue					15,724	13,659	29,383
Total Base Revenue	353,377,766				25,796,968	21,689,673	47,486,641
Total WPCA Revenue					33	0	33
Total Revenue					25,797,001	21,689,673	47,486,674

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF REVISED PROPOSED RATES

2. GENERAL SERVICE

	Billing Units	Unbundled Rate:			Unbundled Revenue		
		Power Supply	SSVEC Wires	Total	Power Supply	SSVEC Wires	Total
GENERAL SERVICE							
Non-Demand							
Base Charge (12 months sum)	75,365	0.00	17.50	17.50	0	1,318,888	1,318,888
kWh	36,407,984	0.080000	0.037100	0.117100	2,912,639	1,350,736	4,263,375
Additional Minimum					35,996	0	35,996
Subtotal					2,948,635	2,669,624	5,618,258
WPCA					3	0	3
Total Revenue					2,948,638	2,669,624	5,618,262
Demand							
Base Charge (12 months sum)	24,887	0.00	17.50	17.50	0	435,523	435,523
First 10 kW	194,670	0.00	0.00	0.00	0	0	0
Over 10 kW	170,742	6.50	2.50	9.00	1,109,826	426,856	1,536,682
kWh	70,960,271	0.064500	0.052600	0.117100	4,576,937	3,732,510	8,309,448
Additional Minimum					0	27,251	27,251
Subtotal					5,686,763	4,622,140	10,308,903
WPCA					7	0	7
Total Revenue					5,686,770	4,622,140	10,308,910
Time of Use							
Base Charge (12 months sum)	494	0.00	21.50	21.50	0	10,621	10,621
On-Peak kW	1,189	19.00	0.00	19.00	22,589	0	22,589
kWh	836,583	0.035000	0.052500	0.087500	29,280	43,921	73,201
Subtotal					51,869	54,542	106,411
WPCA					0	0	0
Total Revenue					51,869	54,542	106,411
Total Base Revenue	108,204,838				8,687,267	7,346,305	16,033,572
Total WPCA Revenue					10	0	10
Total Revenue					8,687,277	7,346,305	16,033,582

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF REVISED PROPOSED RATES

	Billing Units	Unbundled Rate:			Unbundled Revenue		
		Power Supply	SSVEC Wires	Total	Power Supply	SSVEC Wires	Total
3. IRRIGATION							
Base Charge (12 months sum)							
kW (April-Oct)	3,034	0.00	25.00	25.00	0	75,850	75,850
kWh (April-Oct)	122,093	6.00	2.00	8.00	732,558	244,186	976,744
kWh (Nov-March)	29,090,785	0.050000	0.034500	0.084500	1,454,539	1,003,632	2,458,171
First 300	7,879,053	0.075300	0.034500	0.109800	593,293	271,827	865,120
Over 300	809,740	0.045300	0.034500	0.079800	36,681	27,936	64,617
Subtotal	37,779,578				2,817,071	1,623,431	4,440,502
WPCA Revenue					3	0	3
Total Revenue					2,817,074	1,623,431	4,440,506
Load Factor							
Base Charge (12 months sum)							
kWh	320	0.00	30.00	30.00	0	9,600	9,600
Additional Minimum	16,244,584	0.074200	0.020000	0.094200	1,205,348	324,892	1,530,240
Subtotal					0	155,389	155,389
WPCA Revenue					1,205,348	489,881	1,695,229
Total Revenue					1	0	1
					1,205,350	489,881	1,695,230
Daily Control							
Base Charge (12 months sum)							
Billing kW	873	0.00	25.00	25.00	0	21,825	21,825
First 150	38,710	0.00	0.00	0.00	0	0	0
Next 150	2,006,488	0.075300	0.034500	0.109800	151,089	69,224	220,312
Over 300	587,056	0.075300	0.034500	0.109800	44,205	20,253	64,459
Subtotal	3,472,041	0.045300	0.034500	0.079800	157,283	119,785	277,069
WPCA Revenue					127,528	58,429	185,957
Total Revenue					127,528	58,429	185,957
					607,633	347,946	955,578
					1	0	1
					607,634	347,946	955,579

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF REVISED PROPOSED RATES

	Billing Units	Unbundled Rate:			Unbundled Revenue		
		Power Supply	SSVEC Wires	Total	Power Supply	SSVEC Wires	Total
3. IRRIGATION (CONTINUED)							
<u>Weekly Control</u>							
Base Charge (12 months sum)	2,637	0.00	25.00	25.00	0	65,925	65,925
Billing kW	119,961	0.00	0.00	0.00	0	0	0
First 150	7,050,188	0.075300	0.034500	0.109800	530,879	243,231	774,111
Next 150	1,989,408	0.075300	0.034500	0.109800	149,802	68,635	218,437
Over 300	10,810,048	0.045300	0.034500	0.079800	489,695	372,947	862,642
Discounted Usage							
5.00%							
First 150	6,465,208	0.071535	0.032775	0.104310	462,489	211,897	674,386
Next 150	6,465,208	0.071535	0.032775	0.104310	462,489	211,897	674,386
Subtotal	32,780,060				2,095,354	1,174,532	3,269,886
WPCA Revenue					3	0	3
Total Revenue					2,095,357	1,174,532	3,269,889
<u>Daily Control/Large</u>							
Base Charge (12 months sum)	1,462	0.00	25.00	25.00	0	36,550	36,550
kW	0	19.00	0.00	19.00	0	0	0
kWh	35,167,187	0.040000	0.044600	0.084600	1,406,687	1,568,457	2,975,144
Additional Minimum					0	102,601	102,601
Subtotal					1,406,687	1,707,608	3,114,295
WPCA Revenue					3	0	3
Total Revenue					1,406,691	1,707,608	3,114,298
<u>Test</u>							
Base Charge (12 months sum)	1	0.00	0.00	0.00	0	0	0
kWh	21,603	0.080000	0.037100	0.117100	1,728	801	2,530
Subtotal					1,728	801	2,530
WPCA					0	0	0
Total					1,728	801	2,530
Total Base Revenue					8,133,822	5,344,199	13,478,020
Total WPCA Revenue					12	0	12
Total Revenue					8,133,834	5,344,199	13,478,033
4. LARGE POWER							
Base Charge (12 months sum)	3,887	0.00	75.00	75.00	0	291,525	291,525
kW	447,436	9.80	0.00	9.80	4,384,871	0	4,384,871
kWh	124,127,579	0.036000	0.031000	0.067000	4,468,953	3,847,955	8,316,548
Subtotal					8,853,464	4,139,480	12,992,944
WPCA					11	0	11
Total					8,853,475	4,139,480	12,992,955

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF REVISED PROPOSED RATES

	Billing Units	Unbundled Rate:			Unbundled Revenue		
		Power Supply	SSVEC Wires	Total	Power Supply	SSVEC Wires	Total
5. LARGE POWER - SEASONAL							
<u>Customer Owned Transformer</u>							
Base Charge (12 months sum)	44	0.00	75.00	75.00	0	3,300	3,300
kW	8,364.98	9.80	0.00	9.80	81,977	0	81,977
kWh	980,280	0.036000	0.031000	0.067000	35,290	30,389	65,679
Subtotal					117,267	33,689	150,956
<u>Cooperative Owned Transformer</u>							
Base Charge (12 months sum)	8	0.00	75.00	75.00	0	600	600
kW	877.60	9.80	1.00	10.80	8,600	878	9,478
kWh	93,489	0.036000	0.031000	0.067000	3,366	2,898	6,264
Subtotal					11,966	4,376	16,342
WPCA					0	0	0
Total	1,073,769				129,233	38,064	167,297
6. LARGE POWER - INDUSTRIAL							
<u>Customer Owned Transformer</u>							
Base Charge (12 months sum)	12	0.00	250.00	250.00	0	3,000	3,000
Billing kW	6,003	0.50	6.00	6.50	3,001	36,015	39,016
First	2,229,358	0.071000	0.004800	0.075800	158,284	10,701	168,985
Next	0	0.035000	0.005800	0.040800	0	0	0
Subtotal	2,229,358				161,286	49,716	211,002
WPCA					2	0	2
Total					161,288	49,716	211,004
<u>Cooperative Owned Transformer</u>							
Base Charge (12 months sum)	67	0.00	250.00	250.00	0	16,750	16,750
Billing kW	61,242	0.50	7.00	7.50	30,621	428,696	459,317
First	21,070,456	0.071000	0.004800	0.075800	1,496,002	101,138	1,597,141
Next	1,731,577	0.035000	0.005800	0.040800	60,605	10,043	70,648
Subtotal	22,802,033				1,587,229	556,627	2,143,856
WPCA					0	0	0
Total					1,587,229	556,627	2,143,856
Total Base Revenue					1,748,514	606,343	2,354,858
Total WPCA Revenue					2	0	2
Total Revenue	25,031,391				1,748,517	606,343	2,354,860

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF REVISED PROPOSED RATES

	Billing Units	Unbundled Rate:			Unbundled Revenue		
		Power Supply	SSVEC Wires	Total	Power Supply	SSVEC Wires	Total
7. LARGE POWER - TIME OF USE							
Base Charge (12 months sum)	458	0.00	100.00	100.00	0	45,800	45,800
On-Peak kW	2,007	19.00	0.00	19.00	38,128	0	38,128
Off-Peak kW	49,795	0.00	4.75	4.75	0	236,528	236,528
kWh	8,528,086	0.035000	0.005600	0.040600	298,483	47,757	346,240
Subtotal					336,611	330,085	666,696
WPCA					1	0	1
Total Revenue					336,612	330,085	666,697
8. CONTRACT 1							
Base Charge (12 months sum)	12	0.00	25.00	25.00	0	300	300
Billing kW	84,291	0.00	2.50	2.50	0	210,728	210,728
On-Peak kWh	16,120,800	0.057400	0.013600	0.071000	925,334	219,243	1,144,577
Off-Peak kWh	7,354,800	0.037100	0.010700	0.047800	272,863	78,696	351,559
Subtotal	23,475,600				1,198,197	508,967	1,707,164
WPCA					2	0	2
Total Revenue					1,198,199	508,967	1,707,166
9. CONTRACT 2							
Base Charge (12 months sum)	12	0.00	9,633.00	9,633.00	0	115,596	115,596
Billing kW	24,792	5.50	3.50	9.00	136,356	86,772	223,128
First	9,916,800	0.059100	0.010000	0.069100	586,083	99,168	685,251
Over	4,497,600	0.049100	0.000000	0.049100	220,832	0	220,832
Subtotal	14,414,400				943,271	301,536	1,244,807
WPCA					1	0	1
Total Revenue					943,272	301,536	1,244,808

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF REVISED PROPOSED RATES

	Billing Units	Unbundled Rate:			Unbundled Revenue		
		Power Supply	SSVEC Wires	Total	Power Supply	SSVEC Wires	Total
10. RV PARKS							
Base Charge (12 months sum)	142	0.00	75.00	75.00	0	10,650	10,650
Billing kW	14,932	9.80	0.00	9.80	146,335	0	146,335
kWh	4,675,120	0.036000	0.031000	0.067000	168,304	144,929	313,233
Subtotal					314,639	155,579	470,218
WPCA					0	0	0
Total Revenue					314,640	155,579	470,219

11. STREET LIGHTSCooperative Investment

70 Watt HPS	25	168	1.32	10.99	12.31	222	1,847	2,069
100 Watt HPS - Single/Wood Pole	36	1,392	1.90	9.29	11.19	2,644	12,929	15,573
100 Watt HPS - Single/Steel Pole	36	1,608	1.90	14.07	15.97	3,054	22,623	25,677
100 Watt HPS - Double/Wood Pole	72	24	3.80	16.89	20.69	91	405	497
100 Watt HPS - Double/Steel Pole	72	24	3.80	19.20	23.00	91	461	552
175 Watt MV - Single/Wood Pole	63	756	3.32	9.61	12.94	2,513	7,268	9,781
175 Watt MV - Single/Steel Pole	63	780	3.32	12.36	15.69	2,593	9,644	12,236
175 Watt MV - Double/Wood Pole	126	126	6.65	16.73	23.38	838	2,108	2,945
175 Watt MV - Double/Steel Pole	126	12	6.65	18.98	25.63	80	228	308
150 Watt HPS - Single/Wood Pole	54	3,696	2.85	11.84	14.69	10,530	43,755	54,285
150 Watt HPS - Single/Steel Pole	54	2,940	2.85	14.84	17.69	8,376	43,625	52,001
150 Watt HPS - Double/Wood Pole	108	12	5.70	21.93	27.63	68	263	332
150 Watt HPS - Double/Steel Pole	108	84	5.70	24.43	30.13	479	2,052	2,531
250 Watt MV - Single/Wood Pole	90	90	4.75	11.94	16.69	427	1,075	1,502
250 Watt MV - Single/Steel Pole	90	1,260	4.75	15.00	19.75	5,983	18,902	24,885
250 Watt MV - Double/Wood Pole	180	0	9.50	21.50	31.00	0	0	0
250 Watt MV - Double/Steel Pole	180	12	9.50	24.00	33.50	114	288	402
250 Watt HPS - Single/Wood Pole	90	765	4.75	15.81	20.56	3,633	12,098	15,730
250 Watt HPS - Single/Steel Pole	90	3,012	4.75	18.56	23.31	14,302	55,915	70,217
250 Watt HPS - Double/Wood Pole	180	0	9.50	29.75	39.25	0	0	0
250 Watt HPS - Double/Steel Pole	180	108	9.50	31.75	41.25	1,026	3,429	4,455
400 Watt HPS - Single/Wood Pole	144	144	7.60	15.59	23.19	1,094	2,245	3,339
400 Watt MV - Single/Steel Pole	144	144	7.60	18.34	25.94	1,094	2,641	3,735
400 Watt MV - Double/Wood Pole	288	288	15.19	28.87	44.06	4,376	8,314	12,690
400 Watt MV - Double/Steel Pole	288	12	15.19	30.93	46.13	182	371	554
Subtotal						63,627	252,113	315,740

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF REVISED PROPOSED RATES

	Billing Units	Unbundled Rate:			Unbundled Revenue		
		Power Supply	SSVEC Wires	Total	Power Supply	SSVEC Wires	Total
11. STREET LIGHTS (Continued)							
Customer Investment							
100 Watt HPS - Single/Wood Pole	25	10	1.32	7.31	8.63	13	73
100 Watt HPS - Single/Steel Pole	36	2,400	1.90	8.29	10.19	4,558	19,892
100 Watt HPS - Double/Wood Pole	36	0	1.90	14.66	16.56	0	0
100 Watt HPS - Double/Steel Pole	72	0	3.80	13.76	17.56	0	0
175 Watt MV - Single/Wood Pole	72	36	3.80	6.45	10.25	137	232
175 Watt MV - Single/Steel Pole	63	1,584	3.32	8.36	11.69	5,265	13,248
175 Watt MV - Double/Wood Pole	63	126	3.32	15.80	19.13	419	1,991
175 Watt MV - Double/Steel Pole	126	0	6.65	13.48	20.13	0	0
150 Watt HPS - Single/Wood Pole	126	132	6.65	4.91	11.56	878	649
150 Watt HPS - Single/Steel Pole	54	8,316	2.85	10.28	13.13	23,693	85,455
150 Watt HPS - Double/Wood Pole	54	0	2.85	19.21	22.06	0	0
150 Watt HPS - Double/Steel Pole	108	216	5.70	17.55	23.25	1,231	3,791
250 Watt MV - Single/Wood Pole	108	60	5.70	7.74	13.44	342	464
250 Watt MV - Single/Steel Pole	90	1,776	4.75	10.31	15.06	8,433	18,318
250 Watt MV - Double/Wood Pole	90	0	4.75	19.88	24.63	0	0
250 Watt MV - Double/Steel Pole	180	24	9.50	17.07	26.56	228	410
250 Watt HPS - Single/Wood Pole	180	648	9.50	7.38	16.88	6,154	4,781
250 Watt HPS - Single/Steel Pole	90	1,668	4.75	13.50	18.25	7,920	22,521
250 Watt HPS - Double/Wood Pole	90	0	4.75	28.06	32.81	0	0
250 Watt HPS - Double/Steel Pole	180	0	9.50	23.88	33.38	0	0
400 Watt MV - Single/Wood Pole	180	12	9.50	9.94	19.44	114	119
400 Watt MV - Single/Steel Pole	144	48	7.60	13.22	20.81	365	634
400 Watt MV - Double/Wood Pole	144	0	7.60	30.15	37.75	0	0
400 Watt MV - Double/Steel Pole	288	0	15.19	22.87	38.06	0	0
Subtotal						59,749	172,577
Total Base Revenue		2,355,546				123,377	424,690
Total WPCA Revenue						0	0
Total Revenue						123,377	424,690

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

CALCULATION OF REVISED PROPOSED RATES

	Billing Units	Unbundled Rate:			Unbundled Revenue		
		Power Supply	SSVEC Wires	Total	Power Supply	SSVEC Wires	Total
12. SECURITY LIGHTS							
175 Watt MV	60	2,188	3.17	8.23	6,926	18,017	24,943
100 Watt HPS	60	21,664	3.17	7.75	68,580	167,991	236,571
35 Watt LPS	60	3,445	3.17	5.65	10,906	19,479	30,385
Additional Minimum					0	21,404	21,404
Subtotal	1,634,628				86,412	226,891	313,303
WPCA					0	0	0
Total					86,412	226,891	313,303
13. UNMETERED							
Base Charge (12 months sum)		2,352	0.00	16.00	0	37,632	37,632
kWh	386,616	0.074300	0.013000	0.087300	28,726	5,026	33,752
Subtotal					28,726	42,658	71,384
WPCA					0	0	0
Total					28,726	42,658	71,384
14. PRE-METER CONSTRUCTION							
Base Charge (12 months sum)	138	0.00	12.00	12.00	0	1,656	1,656
15. TOTAL REVENUE							
Total Base Revenue	799,860,188				56,380,501	41,156,127	97,536,628
Total WPCA Revenue					74	0	74
Fuel Adjustment					0	0	0
Other Revenue					0	4,847,518	4,847,518
Total Revenue					56,380,575	46,003,645	102,384,220

Rejoinder

Exhibit DH-6.0

SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

OTHER REVENUE - SSVEC REVISED PROPOSED
FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2007

	Units	Existing		Proposed		Change	
		Rate	Revenue	Rate	Revenue	Rate	Revenue
Return Check	1,450	15.00	21,750.00	25.00	36,250.00	10.00	14,500.00
Existing Member Connect Fee - Regular Hours	10,191	25.00	254,775.00	50.00	509,550.00	25.00	254,775.00
Connect Fee - After Hours	59	45.00	2,655.00	75.00	4,425.00	30.00	1,770.00
New Connects	1,500	0.00	0.00	50.00	75,000.00	50.00	75,000.00
Non-Pay Trip Fee - Regular Hours	7,137	25.00	178,425.00	50.00	356,850.00	25.00	178,425.00
Non-Pay Trip Fee - After Hours	666	45.00	29,970.00	75.00	49,950.00	30.00	19,980.00
Service Charge Reg Hours	68	25.00	1,700.00	50.00	3,400.00	25.00	1,700.00
Service Charge After Hours	63	45.00	2,835.00	75.00	4,725.00	30.00	1,890.00
Total			<u>492,110.00</u>		<u>1,040,150.00</u>		<u>548,040.00</u>

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2

3 COMMISSIONERS

4 KRISTIN K. MAYES—Chairman
5 GARY PIERCE
6 PAUL NEWMAN
7 SANDRA D. KENNEDY
8 BOB STUMP

9 IN THE MATTER OF THE
10 APPLICATION OF SULPHUR SPRINGS
11 VALLEY ELECTRIC COOPERATIVE,
12 INC. FOR A HEARING TO DETERMINE
13 THE FAIR VALUE OF ITS PROPERTY
14 FOR RATEMAKING PURPOSES, TO
15 FIX A JUST AND REASONABLE
16 RETURN THEREON, TO APPROVE
17 RATES DESIGNED TO DEVELOP
18 SUCH RETURN AND FOR RELATED
19 APPROVALS.

DOCKET NO. E-01575A-08-0328

20 **PRE-FILED REJOINDER TESTIMONY OF JACK BLAIR**
21 **ON BEHALF OF**
22 **SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.**
23 **APRIL 17, 2009**
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III.	CHARITABLE EXPENSE ADJUSTMENT	4

1 **I. INTRODUCTION**

2
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is John ("Jack") Blair, Jr. My business address is 311 East Wilcox
5 Drive, Sierra Vista, AZ 85635.
6

7 **Q. MR. BLAIR, BY WHOM ARE YOU EMPLOYED AND IN WHAT**
8 **CAPACITY?**

9 A. I am the Chief Member Services Officer of Sulphur Springs Valley Electric
10 Cooperative, Inc. ("SSVEC" or "Cooperative").
11

12 **Q. DID YOU ALSO PRE-FILE DIRECT AND REBUTTAL TESTIMONY**
13 **IN THIS MATTER ON BEHALF OF SULPHUR SPRINGS VALLEY**
14 **ELECTRIC COOPERATIVE, INC. ("SSVEC" OR THE**
15 **"COOPERATIVE").**

16 A. Yes.
17

18 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN**
19 **THIS PROCEEDING?**

20 A. The purpose of my rejoinder testimony is to respond to i) the surrebuttal
21 testimony of Steve Irvine; and ii) the charitable contribution adjustment
22 proposed by Crystal Brown.
23

24 ...

25 ...

26 ...

1 **II. SURREBUTTAL TESTIMONY OF STEVE IRVINE**

2
3 **Q. BASED UPON YOUR REVIEW OF MR. IRVINE'S SURREBUTTAL**
4 **TESTIMONY, ARE THERE ANY AREAS OF DISAGREEMENT**
5 **THAT REMAIN BETWEEN THE COOPERATIVE AND STAFF**
6 **REGARDING STAFF'S DSM AND REST RECOMMENDATIONS?**

7 A. Yes. Although SSVEC and Staff are in agreement on almost all of Staff
8 recommendations set forth in Mr. Irvine's Direct and Surrebuttal
9 Testimonies, there is still one area of disagreement. That issue relates to
10 Staff's recommendation that the DSM adjustor rate be reset annually on June
11 1st of each year following the filing by the Cooperative of program expenses
12 reports for the previous year by March 1st.

13
14 **Q. WHAT IS SSVEC'S CONCERN WITH THIS RECOMMENDATION?**

15 A. As I stated in my Rebuttal Testimony, SSVEC agrees that the new DSM
16 adjustor rate become effective on June 1 of each year. However, Staff is
17 recommending that such effectiveness be contingent upon Commission
18 approval of the reset. Although SSVEC does not oppose the Commission
19 approving the reset, SSVEC believes that the Commission should treat the
20 June 1 date as a "hard" deadline. As more fully explained in my Rebuttal
21 Testimony, Staff will have 90 days to review SSVEC's filing and submit the
22 matter to the Commission for approval on or before June 1st of each year.
23 SSVEC has no control over this process and has no assurance that Staff will
24 conduct its analysis within the timeframe in order to submit a proposed order
25 to the Commission for approval before June 1. SSVEC believes that if the
26 Commission does not approve the filing by June 1, the new adjustor rate

1 should automatically become effective. SSVEC believes this is appropriate
2 for the following reasons:

- 3
- 4 • The Commission is *not* denied the *opportunity* to consider and approve
- 5 the matter.
- 6 • It provides the Commission flexibility under the circumstances.
- 7 • The Commission will have 90 days to consider and approve the filing
- 8 which should be more than enough time.
- 9 • SSVEC would agree that the Commission could “true-up” the adjustor
- 10 the following year if it did not approve the adjustor the previous year.
- 11 • It provides the Cooperative certainty by not placing the Cooperative at
- 12 a disadvantage by having to further wait to recover additional program
- 13 expenses (or reduce the adjustor for its customers if appropriate) until
- 14 such time that the Staff and the Commission decide to act on the filing
- 15 which is completely outside the Cooperative’s control.
- 16 • It motivates SSVEC to promote and proliferate DSM programs
- 17 consistent with the Commission objectives by ensuring that SSVEC
- 18 will receive timely recovery of program expenses.
- 19

20 **Q. WHAT IS THE REASON STAFF PROVIDES IN ITS SURREBUTTAL**
21 **TESTIMONY AS TO WHY THE HARD DEADLINE IS NOT**
22 **APPROPRIATE?**

23 **A.** Mr. Irvine states that adjudication of the filing by the Commission will allow
24 the Commission to directly manage recovery of the DSM adjustor rate and
25 the impact on its ratepayers and that automatic implementation is not
26 consistent with setting the rate pursuant to Commission order.

1 Q. DO YOU AGREE WITH THIS REASON AS THE BASIS FOR THE
2 COMMISSION TO REJECT SSVEC'S PROPOSAL?

3 A. No. SSVEC's proposal provides the Commission up to 90 days to approve
4 the filing which therefore provides the Commission the opportunity to
5 directly manage recovery of the DSM adjustor rate and the impact to
6 customers that Mr. Irvine speaks of. Moreover, the Commission has
7 approved many adjustors that do not require reset by Commission order
8 which is one of the reasons for having adjustor mechanisms.
9

10 **III. CHARITABLE EXPENSE ADJUSTMENT**
11

12 Q. IN HER SURREBUTTAL TESTIMONY, MS. BROWN MAINTAINS
13 HER RECOMMENDATION THAT \$298,622 OF THE
14 COOPERATIVE'S CHARITABLE CONTRIBUTIONS AND
15 SPONSORSHIPS BE EXCLUDED FROM THE COOPERATIVE'S
16 OPERATING EXPENSES. ON PAGE 7, LINES 18 AND 19 OF HER
17 SURREBUTTAL TESTIMONY, MS. BROWN STATES THAT "THE
18 COMMISSION, IN DECISION NO 58358 DOES NOT PROVIDE FOR
19 AUTOMATIC RECOVERY OF [CHARITABLE CONTRIBUTIONS].
20 DO YOU AGREE WITH THAT STATEMENT?

21 A. No. In fact, the Decision indicates the contrary by specifically stating "we
22 will allow the costs in the instant case" but required the Cooperative as a
23 condition of recovery, to first obtain member approval through a bylaw
24 amendment, which it did as more fully described in my Rebuttal Testimony.

25 ...

26 ...

1 **Q. MS. BROWN STATES THAT STAFF IS NOT RECOMMENDING**
2 **THAT SSVEC CEASE CHARITABLE CONTRIBUTIONS. PLEASE**
3 **COMMENT ON THIS STATEMENT.**

4 A. Although Staff is not recommending that SSVEC cease its charitable
5 contribution activity, by implication it is acknowledging that the Cooperative
6 can continue such activity if it so chooses. As a cooperative, SSVEC's sole
7 source of revenues is from its member-ratepayers. Therefore, as more fully
8 discussed in Mr. Hedrick's Rebuttal and Rejoinder Testimonies, Staff is
9 requiring SSVEC to fund such activities from equity, which is inconsistent
10 with the Cooperative and Commission objective that SSVEC build its equity.

11
12 **Q. FINALLY, MS. BROWN STATES THAT ARIZONA ELECTRIC**
13 **COOPERATIVE ("AEPCO"), IN DECISION NO 68071 ADOPTED**
14 **STAFF'S RECOMMENDATION TO RECOGNIZE CHARITABLE**
15 **CONTRIBUTIONS AND OTHER EXPENSES BELOW THE LINE.**
16 **PLEASE COMMENT ON THIS STATEMENT.**

17 A. Unlike SSVEC, AEPCO is a wholesale generation cooperative. Its members
18 are comprised not of individual customers and ratepayers, but member
19 cooperatives such as SSVEC. This is an apples to oranges comparison. The
20 SSVEC member-ratepayers have specifically authorized the Cooperative to
21 use ratepayer money to fund charitable contributions and programs within the
22 Cooperative community at the local level. This is vastly different than the
23 AEPCO situation and is not a valid comparison. Moreover, unlike an
24 investor owned utility where the utility might elect to use shareholder money
25 to fund such programs, SSVEC has no shareholders.

26 ...

1 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**
2 A. Yes.
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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 COMMISSIONERS

4 KRISTIN K. MAYES—Chairman
5 GARY PIERCE
6 PAUL NEWMAN
7 SANDRA D. KENNEDY
8 BOB STUMP

9 IN THE MATTER OF THE
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11 VALLEY ELECTRIC COOPERATIVE,
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17 RATES DESIGNED TO DEVELOP
18 SUCH RETURN AND FOR RELATED
19 APPROVALS.

DOCKET NO. E-01575A-08-0328

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26
PRE-FILED REJOINDER TESTIMONY OF DAVID M. BRIAN, P.E.
ON BEHALF OF
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.

April 17, 2009

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IV. ALTERNATIVE APPROACHES	18

1 **I. INTRODUCTION**

2
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is David M. Brian. My business address is 1850 Parkway Place,
5 Suite 800, Marietta, Georgia, 30067.
6

7 **Q. MR. BRIAN, BY WHOM ARE YOU EMPLOYED AND IN WHAT**
8 **CAPACITY?**

9 A. I am employed as an engineering consultant by GDS Associates. I am a Vice
10 President in the Power Supply Planning group at GDS. GDS is a multi-
11 disciplined engineering and consulting firm primarily serving electric, gas,
12 and water utilities.
13

14 **Q. DID YOU ALSO PRE-FILE REBUTTAL TESTIMONY IN THIS**
15 **MATTER ON BEHALF OF SULPHUR SPRINGS VALLEY**
16 **ELECTRIC COOPERATIVE, INC. ("SSVEC" OR THE**
17 **"COOPERATIVE")?**

18 A. Yes.
19

20 **Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY IN**
21 **THIS PROCEEDING?**

22 A. The purpose of my testimony is to respond to the Surrebuttal Testimony of
23 Mr. Jerry Mendl. Mr. Mendl responds to issues I raised in my Rebuttal
24 testimony, involving institutional factors, purchased power prices, and
25 alternative approaches.
26

...

1 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR REJOINDER**
2 **TESTIMONY.**

3 A. The emphasis of my Rejoinder Testimony is on the two primary issues
4 addressed by Mr. Mendl is his Surrebuttal Testimony: (1) the need for power
5 procurement procedures and (2) Mr. Mendl's new recommendation that
6 SSVEC be subject to a future prudence review relating to its power
7 procurement activities.

8
9 With regard to the issue relating to procurement procedures, I clarify that
10 SSVEC is not opposed *per se* to formal written procedures. The concerns
11 that I expressed in my Rebuttal Testimony with regard to Mr. Mendl's
12 recommendation for procedures (not having seen at the time any examples
13 and the lack of prior specifics from Mr. Mendl) include reduced operating
14 flexibility and the potential cost to implement and maintain them. With Mr.
15 Mendl's clarifying statement in his Surrebuttal Testimony that flexibility
16 would be appropriate, and having reviewed the example of procedures that
17 Mr. Mendl directed SSVEC to, SSVEC is now in a better position to consider
18 how to document the process it follows to procure power. SSVEC is
19 receptive to reducing its procurement process to written form to the extent (a)
20 flexibility can be maintained and (b) the costs of implementing and
21 maintaining those procedures are not overly burdensome to the Cooperative.

22
23 With regard to Mr. Mendl's recommendation for future prudence review, I
24 explain that a future prudence review is not needed. SSVEC has a natural
25 built-in incentive to keep power costs down that does not exist with for-profit
26 utilities that Mr. Mendl is accustomed to reviewing. In SSVEC's case, the

1 owners and the ratepayers are one and the same. SSVEC is naturally
2 motivated, without the need for additional regulation, to keep its costs down
3 because SSVEC's owners pay for its power. I also explained that adequate
4 review procedures are already in place. SSVEC already files its purchased
5 power costs with the Commission every month for the Commission's review.
6 In addition, the prudence of entering into resources of two years' duration or
7 longer is already governed by the Commission's Recommended Best
8 Practices for Procurement, which is embodied in Commission Decision No.
9 70032. Finally, there is the reality that, to the extent any costs were possibly
10 found to be imprudently incurred, there are no separate shareholders to
11 charge those costs to in order to shield the ratepayers. With a cooperative,
12 the ratepayers and the owners are one and the same.

13
14 I also respond to a handful of other statements in Mr. Mendl's Surrebuttal
15 Testimony where there is a need to clarify the record.

16
17 **Q. HOW DO YOU STRUCTURE YOUR REJOINDER TESTIMONY?**

18 A. I structure my Rejoinder Testimony to follow the structure in Mr. Mendl's
19 Surrebuttal Testimony. I first address the issue involving adequacy of power
20 procurement procedures. I then go on to address the purchased power price
21 issue, and lastly I address the issues involving alternative approaches.

22 ...

23 ...

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1 **II. Adequacy of Power Procurement Procedures**

2
3 **Q. MR. MENDEL CLAIMS THAT SSVEC'S POWER PROCUREMENT**
4 **PROCEDURES ARE *AD HOC* IN NATURE. DO YOU AGREE?**

5 A. No. As I said in my Rebuttal Testimony, SSVEC's procedures are not
6 heavily documented to the level of degree put forth by Mr. Mendl. That
7 however does not mean that SSVEC's procedures are *ad hoc*. He states that
8 there is no reliable evidence that SSVEC is following a reasonable, well
9 conceived, documented procurement process. I went into some detail in my
10 rebuttal testimony along these lines. Once again let me describe the process
11 that SSVEC uses, coming from a slightly different direction, in hopes that it
12 helps clarify the process that SSVEC follows:

13
14 1. Hourly & Daily Purchases and Sales - For hourly and daily purchases,
15 Western, as SSVEC's scheduling agent, makes economic decisions as
16 to the best alternatives available between existing dispatchable
17 resources and market purchases for meeting shortfalls, and Western
18 looks for opportunities to make economic sales of excess energy.

19
20 2. Monthly & Seasonal Purchases - SSVEC relies on monthly and
21 seasonal purchases to supplement capacity from AEPCO (and in the
22 future other long-term resources). Non-AEPCO supplies make up
23 only approximately 15-20% of SSVEC's total wholesale needs. These
24 monthly and seasonal purchases are generally limited to the summer
25 months, and they are broken into layers or tranches as part of a
26 laddering strategy, after overall needs are determined from updating

1 SSVEC's load forecast. Suppliers are selected after a Request for
2 Proposal process is conducted and transmission availability is secured.
3 The SSVEC Board has given the CEO the authority to enter into these
4 transactions for up to a year term.

- 5
6 3. Long Term Resources - SSVEC continues to study long term options
7 such as the SPPR project, long term purchased power options, and a
8 peaking project development to supplement power purchased from
9 AEPCO. The procurement of these options is subject to the
10 Commission's oversight by way of its Best Practices for Procurement,
11 set forth in Commission Decision No. 70032. The SSVEC Board
12 would have to approve SSVEC entering into one of these long term
13 options.

14
15 This is a sound procurement process, appropriate for SSVEC because, i) its
16 size and character as a cooperative; and ii) the relative small amount of
17 power that it procures from non-AEPCO sources. The fact that SSVEC's
18 procedures are not formally documented in a written form does not make the
19 process any less sound. In fact, as I have testified, it is not commonplace that
20 it would be documented to the degree put forth by Mr. Mendl. This is
21 somewhat confirmed by the fact that Mr. Mendl can only cite one example of
22 written procedures of this kind (Nevada Power/Sierra Pacific Power).

23 ...

24 ...

25 ...

26 ...

1 Q. MR. MENDEL STATES THAT "THE MERE EXISTENCE OF THE
2 BOARD POLICIES DOES NOT NECESSARILY MEAN THAT THEY
3 ARE REGULARLY AND VIGOROUSLY IMPLEMENTED." (PAGE
4 4, LINE 4) DO YOU AGREE?

5 A. Definitely not. The existence of Board policies *does* in fact mean that they
6 are regularly and vigorously implemented. That is what Board policies are
7 for. SSVEC personnel are very aware of these policies, and they follow them
8 religiously. The fact that they were not initially provided in response to a
9 data request was simply the result of misunderstanding of the intent of the
10 question. Having read Mr. Mendl's Direct Testimony, it became clear that
11 the Board policies were in fact responsive to the request, and we
12 supplemented SSVEC's response at that time.

13
14 Q. MR. MENDEL SAYS THAT THERE IS NO EVIDENCE THAT
15 SSVEC'S PROCESS HAS WORKED WELL IN TERMS OF
16 KEEPING POWER COSTS DOWN. (PAGE 5, LINE 22) DO YOU
17 AGREE?

18 A. No. There evidence that the process has worked well. I testified in my
19 Rebuttal Testimony that SSVEC saved its consumers approximately \$1.8
20 million, by *not* locking into its full need for supplemental power on a forward
21 basis, a tactic that may have been hard to question in hindsight. Leaving
22 much of the summer need to be supplied by the spot market kept power costs
23 down for SSVEC's consumers. There's no question that wholesale power
24 prices were high for the summer of 2008. May and June prices were high
25 using spot prices or forward prices as a gauge, and July-August prices were
26 high as well on a forward basis. These high prices were unavoidable from

1 SSVEC's perspective. It only received approval to become a PRM in late
2 December 2007. By the time it was in a position to purchase wholesale
3 power for the summer of 2008, prices were already high and SSVEC could
4 not avoid paying those high prices. Notably, market prices for the coming
5 summer are *significantly* less, as discussed below.

6
7 **Q. MR. MENDEL STATES THAT SSVEC CONVERTED TO A PARTIAL**
8 **REQUIREMENTS MEMBER IN ORDER TO AVAIL ITSELF OF**
9 **MARKET OPPORTUNITIES TO SECURE POWER AT COSTS**
10 **BELOW THAT CHARGED BY AEPCO. (PAGE 5, LINE 24) DO**
11 **YOU AGREE WITH THIS STATEMENT?**

12 **A.** In part this is true, but it is not the entire story. There were governance issues
13 that in large part drove SSVEC's decision to become a PRM. For example,
14 SSVEC holds only two seats on the AEPCO fourteen seat Board, and yet it
15 would have represented roughly half of AEPCO's all requirements load and
16 half of AEPCO's capacity deficits going forward, had it remained an ARM.

17
18 Mr. Mendl goes on to criticize SSVEC for paying prices higher than that
19 charged by AEPCO. He states that his analysis shows that "the market
20 opportunities that SSVEC availed itself of were substantially more costly
21 than the cost of power from AEPCO." He also states that the prices paid for
22 those purchases were "substantially more costly than spot market prices" and
23 that "this is not evidence that SSVEC's process has worked well."

24 ...

25 ...

26 ...

1 These are incredibly unfair statements. As I testified to in my rebuttal
2 testimony:

- 3
4 • SSVEC “maxed out” on the Schedule A power it could purchase
5 from AEPCO under the partial requirements contract. Buying more
6 power from AEPCO was not an alternative for SSVEC, and it is not
7 fair to criticize SSVEC for paying more than the AEPCO power
8 cost. If SSVEC could have purchased more AEPCO power, it
9 would have done so.
- 10
11 • Written formal procedures or not, power prices were what they
12 were in 2008. Summer power prices spiked to levels over twice
13 where they are currently for summer 2009. Procedures would not
14 have changed the effect that market conditions had on SSVEC’s
15 cost of power. It is interesting to note as well, that current market
16 prices for SSVEC’s supplemental needs for the upcoming 2009
17 summer period are lower than the cost of buying power from
18 AEPCO.
- 19
20 • Although spot prices turned out to be lower than the cost locked
21 into for the APS and PNM purchases, hindsight is twenty-twenty.
22 From a prudence standpoint, decisions must be evaluated based on
23 the information available to the decision makers at the time the
24 decision was made. And Mr. Mendl continues to give SSVEC no
25 credit for *not* purchasing more power on a forward basis.
26

1 Q. MR. MENDEL CHARACTERIZES YOUR TESTIMONY TO SAY
2 THAT YOU ARE OPPOSED TO FORMAL WRITTEN
3 PROCEDURES. IS THAT TRUE?

4 A. No. What I said was (a) formal written procedures would not have the
5 benefits that Mr. Mendl's ascribes to them (as compared to non-written), (b)
6 SSVEC has procedures in place which are adequate, (c) I would be
7 concerned that overly rigid and prescriptive procedures could have a
8 deleterious effect, and (d) SSVEC is already subject to procedures for long
9 term procurement. I do not disagree with Mr. Mendl that procedures add
10 discipline and accountability. I have also learned through Mr. Mendl's
11 Surrebuttal Testimony that he agrees that well crafted procedures will retain
12 some flexibility for planners. That is new information for SSVEC.

13
14 The context within which my rebuttal comments were made was in response
15 to fairly sharp criticism from by Mr. Mendl, which continues in his
16 surrebuttal testimony, and his questioning of SSVEC's past decisions. He is
17 critical of actions that SSVEC has taken, without the benefit of having been
18 in the shoes of the SSVEC decision makers or having a complete
19 understanding of all the history (including the interrelationship between
20 SSVEC and AEPCO) and the activities with which SSVEC has been
21 engaged. That criticism puts SSVEC in a defensive posture, and my Rebuttal
22 Testimony focused on the lack of benefits associated with procedures looking
23 back at 2008. I continue to think they would not have made any difference in
24 the past. Going forward, SSVEC is not opposed to procedures with certain
25 characteristics.

26 ...

1 Flexibility is the biggest concern that SSVEC has with regard to formalized
2 procedures. In the last twelve months, SSVEC has witnessed (a) natural gas
3 prices drop from roughly \$13/mmBtu to roughly \$4/mmBtu, (b) wholesale
4 power prices drop from roughly \$125/MWh to roughly \$45/MWh, (c) an
5 independent power project it was seriously considering being delayed, (d) the
6 SPPR project it is evaluating changing scope and schedule approximately
7 three times, (e) significant available wheeling paths being subscribed and
8 others becoming available, (f) increasing transmission constraints into its
9 service territory, and (g) displacement transactions becoming available.
10 SSVEC would be more receptive to procedures if they were flexible enough
11 to allow SSVEC to respond to circumstances such as these that are constantly
12 changing.

13
14 Since receiving Mr. Mendl's Surrebuttal Testimony, SSVEC has researched
15 and found the power procurement procedures he cites in his testimony.
16 Nevada Power/Sierra Pacific Power has a common set of Portfolio
17 Optimization Procedures that they have filed with the Nevada Public Utilities
18 Commission.

19
20 The first observation I would make is that this one set of procedures is the
21 only set of procedures that Mr. Mendl cited. As I said in my Rebuttal
22 Testimony, these types of procedures are not industry standard and I have
23 never seen procedures such as these used for power purchases; and certainly
24 not for a small cooperative. So between two experts with combined
25 experience of greater than 50 years, we have been able to produce only one
26 example between us and that example is relevant to a large investor-owned

1 utility. This supports my statement that these types of procedures are not
2 commonplace in the industry.

3
4 SSVEC and Nevada Power/Sierra Pacific Power are very different cases.
5 Nevada Power and Sierra Pacific Power are operating subsidiaries under NV
6 Energy, the dominant investor-owned utility serving the state of Nevada. As
7 investor-owned utilities, their primary goal is to produce earnings for their
8 shareholders. Combined they serve over 7,000 megawatts of load. SSVEC
9 serves a peak load of approximately 200 megawatts of load, and of course
10 SSVEC has no third party group of shareholders to answer to. Another
11 significant difference is that NV Energy purchase fuels such as natural gas.
12 Their procurement procedures govern their fuel purchases as well, as they
13 should, since purchased power might displace fuel otherwise burned in their
14 generating units. SSVEC of course is not a generator of power and only
15 purchases power, making its situation much more straightforward than that of
16 NV Energy. In addition, as previously stated, SSVEC only purchases about
17 20% of its needs from the wholesale markets. The remainder comes from
18 AEPCO. Finally, it should be noted that because of its size and procurement
19 activities, Nevada Power/Sierra Pacific Power has 33 positions assigned to
20 the resource procurement area. This would represent 15 to 20 percent of
21 SSVEC's workforce. Yet, Mr. Mendl uses this example as being comparable
22 to SSVEC's situation.

23
24 Having said all that, SSVEC is receptive to reducing its procurement process
25 to written form, if: (a) flexibility can be maintained, and (b) the costs of
26

1 implementing and maintaining those procedures are not overly burdensome
2 to the Cooperative.

3
4 **Q. MR. MENDEL QUOTED YOU AS ARGUING THAT WRITTEN**
5 **PROCEDURES ARE NOT APPROPRIATE FOR SMALLER**
6 **UTILITIES. IS THAT AN ACCURATE REPRESENTATION OF**
7 **YOUR TESTIMONY?**

8 A. No. My testimony simply differentiated smaller, non-profit utilities, and
9 described that because they are non-profit, they are not typically expected or
10 required to be heavily documented in terms of procedures. Small cooperative
11 and municipal utilities are owned by their consumers, and there is no separate
12 set of owners that would benefit from higher rates. More specifically in this
13 case, there is no separate set of owners that would be unaffected by the pass
14 through of higher fuel or purchased power costs, through a fuel and
15 purchased power cost adjustment rider built into the utility's rate structure.

16
17 **Q. MR. MENDEL ATTRIBUTES TO YOU A BELIEF THAT**
18 **FORMALIZED, WRITTEN AND DOCUMENTED PROCEDURES**
19 **ARE INAPPROPRIATE AND IF YOU HAVE YOUR WAY, SSVEC**
20 **WILL NOT MAKE IMPROVEMENTS TO ITS ORGANIZATIONAL**
21 **STRUCTURE AND POWER PROCUREMENT PROCEDURES. IS**
22 **THIS A FAIR CHARACTERIZATION OF YOUR POSITION?**

23 A. No, it's not. SSVEC is always looking for ways to improve its processes.
24 Documenting the process is something SSVEC is open to in light of the
25 further understanding we now have with regard to what Mr. Mendl would
26

1 recommend and his acknowledgement that flexibility would be a necessary
2 ingredient.

3
4 **Q. MR. MENDEL RECOMMENDS A PRUDENCE REVIEW OF SSVEC'S**
5 **PURCHASED POWER PROCUREMENT ACTIVITIES IN THE**
6 **FUTURE. WHAT ARE YOUR REACTIONS TO THIS**
7 **RECOMMENDATION?**

8 A. I don't think it is necessary, for a number of reasons. First, SSVEC has a
9 natural built-in incentive to keep power costs down that does not exist with
10 for-profit utilities that Mr. Mendl is accustomed to reviewing. In SSVEC's
11 case, the owners and the ratepayers are one and the same. SSVEC is
12 naturally motivated, without the need for additional regulation, to keep its
13 costs down because SSVEC's owners pay for its power. Investor-owned
14 utilities do not have this same motivation, since the owners are a separate set
15 of stockholders who have no natural incentive to keep the costs of power
16 down.

17
18 In addition, prudency reviews are generally used in cases where for-profit
19 utilities may be subject to unreasonable costs being written off against
20 earnings to third party stockholders. That can't happen with SSVEC, since
21 any reduction in earnings affects the patronage capital that its member-
22 ratepayers are otherwise entitled. Second, there is already more than
23 adequate review of SSVEC's purchased power activities. SSVEC makes
24 regular filings every month with the Commission relating to the status of its
25 fuel and purchased power adjustment adder, and the Commission is able to
26 review SSVEC's purchased power costs within that existing framework. In

1 addition, the Commission already requires SSVEC to follow a solicitation
2 process for purchases of two years or longer that requires Commission
3 oversight and the use of an independent monitor (embodied in Decision No.
4 70032). All of these factors ensure that SSVEC will be prudent with its
5 decisions, and any additional prudency review would be redundant and
6 wasteful in terms of the time, resources and expense to conduct the review.
7

8 **Q. MR. MENDEL CRITICIZES SSVEC FOR NOT LOCKING IN MORE**
9 **POWER LONG BEFORE SUMMER MONTHS, USING AN**
10 **ORDERLY AND ORGANIZED FASHION. (PAGE 8, LINE 3)**
11 **PLEASE COMMENT ON THIS CRITICISM.**

12 A. Ideally I agree with Mr. Mendl, it would have been better if SSVEC could
13 have planned further in advance and been able to purchase power for the
14 summer of 2008 earlier. However there simply was not time. SSVEC only
15 received approval to become a PRM in late December 2007. With the time
16 required to get up and running as a PRM, and then the time required to
17 prepare a needs forecast, locate available transmission, and negotiate
18 enabling agreements with suppliers, SSVEC was not able to transact until the
19 April-May timeframe.
20

21 SSVEC has been able to plan further in advance for 2009. SSVEC made its
22 first purchase for summer 2009 in November 2008, another purchase in
23 January 2009, and is in the process of completing a third and final purchase
24 in April 2009. This is part of the laddering strategy I previously testified that
25 SSVEC follows.
26

...

1 Q. MR. MENDEL SAYS SSVEC "PANICKED" IN MAKING THE APS
2 AND PNM PURCHASES. (PAGE 8, LINE 7) IS THIS ACCURATE?

3 A. That is simply not the case. I was involved directly in these purchases, and
4 they were part of a laddering strategy, as I said in my Rebuttal Testimony.
5 Those purchases were planned for many weeks, if not months, in advance.
6

7 Q. MR. MENDEL CLAIMS THAT RELYING ON THE SPOT MARKET IS
8 SSVEC'S *DE FACTO* POLICY OF PURCHASING POWER. (PAGE 8,
9 LINE 21) IS THIS ACCURATE?

10 A. Again this is not the case, and it highlights Mr. Mendl's lack of
11 understanding of SSVEC's approach to purchasing power. In fact, SSVEC's
12 *de facto* policy for power procurement is to have most if not all of its power
13 supply pre-arranged prior to summer months. SSVEC has done exactly that
14 for 2009. SSVEC has purchased or arranged for firm delivery of 90
15 megawatts of power for the summer 2009 season, enough to completely
16 cover SSVEC's supplemental power needs. SSVEC deviated from that
17 approach in 2008 because of the lack of time and the rising, near record high
18 power prices. This was the exception and not the norm by relying so much
19 on the spot market. And as I stated in my Rebuttal Testimony, this deviation
20 saved SSVEC \$1.8 million in 2008.

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

1 **III. Purchased Power Prices Relative to Market**

2
3 **Q. MR. MENDEL MAKES THE ASSERTION THAT YOU WERE**
4 **WRONG WHEN YOU CRITICIZED HIS REVIEW OF THE APS**
5 **AND PNM PURCHASES AS ON-PEAK PURCHASES SIX DAYS A**
6 **WEEK. (PAGE 13, LINE 18) WERE YOU WRONG?**

7 A. No, I was not wrong. They were on-peak purchases six days a week. The
8 seventh day, Sunday, is an off-peak day, so six days out of seven they were
9 on-peak purchases. This was a general statement, and Mr. Mendl is correct
10 that holidays are off-peak as well. There are two holidays in the May-August
11 time period, Memorial Day and Independence Day. So, for two weeks out of
12 the seventeen week period, the purchases were on-peak only five days of the
13 seven day week.

14
15 Regardless, my original conclusion that Mr. Mendl's comparison is unfair
16 has not changed. He uses significant amounts of off-peak market pricing
17 data in his comparison to the APS and PNM purchases, which were on-peak
18 purchases approximately 100 out of 119 days or 84% of the time.

19
20 **Q. MR. MENDEL SAYS IT IS DISINGENUOUS OF YOU TO CRITICIZE**
21 **HIS ANALYSIS BECAUSE SSVEC DID NOT PROVIDE MARKET**
22 **PRICE DATA. (PAGE 14, LINE 1) IS THIS FAIR?**

23 A. No. SSVEC truly does not maintain a database of market price data. There
24 are independent services that maintain these databases, and the data can be
25 purchased for a fee. SSVEC relies on these services as well as Western for
26 market data, but it does not maintain its own database. Western provides this

1 service sufficiently and there is no need for a separate database. SSVEC
2 provided Mr. Mendl with the only data that it had in its possession that it
3 could share without violating copyrights, which is actual transaction data
4 provided by Western. It is this data that Mr. Mendl uses in his analysis, but
5 he then turns around and criticizes SSVEC when SSVEC provided all that it
6 had.

7
8 **Q. MR. MENDEL AGREES SSVEC SHOULD NOT BE JUDGED IN**
9 **HINDSIGHT, BUT RATHER BASED ON THE INFORMATION IT**
10 **HAD BEFORE IT AT THE TIME, BUT HE ALSO SAYS THAT**
11 **SSVEC SHOULD HAVE HAD MORE INFORMATION BEFORE IT**
12 **WHEN IT MADE PURCHASING DECISIONS. (PAGE 15, LINE 19)**
13 **DO YOU AGREE?**

14 **A.** I don't know what further information SSVEC could have had before it to
15 assist with the decision. Mr. Mendl is critical of SSVEC for not maintaining
16 a database of spot market prices, but historical spot market prices are no
17 indication of where prices will go in the future, so they are almost
18 meaningless in any decision made about the future.

19
20 **Q. MR. MENDEL SUGGESTS THAT THE REASON FOR A**
21 **COMPARISON TO SPOT PRICES IS THAT SSVEC MIGHT FIND**
22 **THAT BUYING FROM THE SPOT MARKET WOULD**
23 **CONSISTENTLY YIELD LOWER PRICES AND SSVEC MAY**
24 **WANT TO REASSESS ITS PRACTICES. (PAGE 16, LINE 10) WHAT**
25 **ARE YOUR REACTIONS TO THIS?**
26

1 A. SSVEC would not consider relying *entirely* on the spot markets for its
2 supplemental power needs. Locking in prices for firm power on a forward
3 basis provides certainty, reliability, and predictability, and it reduces
4 volatility.

5
6 **III. Alternative Approaches**

7
8 **Q. MR. MENDEL SAYS THAT ONE REASON TO COMPARE THE PNM**
9 **AND APS PURCHASES TO THE COST OF POWER SUPPLIED BY**
10 **AEPCO UNDER THE PARTIAL REQUIREMENTS CONTRACT IS**
11 **THAT IT IS A "COMPETING SOURCE OF POWER SUPPLY."**
12 **(PAGE 16, LINE 13) DO YOU AGREE?**

13 A. No. The AEPCO partial requirements purchases are not a competing source
14 of power supply. SSVEC has historically purchased its entire entitlement of
15 Schedule A power from AEPCO. SSVEC can purchase no more, which
16 creates the need for the supplemental purchases from sources such as the
17 market or APS or PNM. Thus, the PRM contract is not a "competing source
18 of power supply."

19
20 **Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

21 A. Yes. SSVEC is willing to consider documenting its power procurement
22 process so long as any written procedures (i) retain some flexibility to allow
23 SSVEC to adjust to changing market conditions and (ii) the cost to
24 implement and maintain them is not overly burdensome to the cooperative.
25 SSVEC does not believe that there is any need for a future prudency review.
26 It is not necessary for a non-profit utility such as SSVEC that purchases less

1 than 20% of its power from the wholesale markets, particularly given the
2 existing Commission oversight in terms of regular purchased power adjustor
3 filings and independently monitored solicitations for longer term power
4 purchases.
5

6 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

7 **A. Yes.**
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